

Executive Summary

The banks and credit card companies have spent 50 years building a proprietary, locked-down system that handles roughly \$2 trillion in credit card transactions and another \$1.3 trillion in debit card transactions every year. Until recently, vendors had little choice but to participate in this system, even though—like a medieval toll road—it is long and bumpy and full of intermediaries eager to take their cut.

PayPal and other vendors have opened the door on a brave new world of payments for the American consumer. Since 1998, PayPal made it possible for people to transfer money to each other instantly. And in 2009, PayPal gave a number of developers access to its code and new companies were launched. Moving money, once a function managed only by the biggest companies in the world, is now a feature available to any code jockey.

The code jockeys and entrepreneurs have developed companies that are moving money and making payments for a lot less than banks, credit card processors, and *yes, credit unions*. More than a billion people worldwide lack access to traditional financial services, yet as of 2009, 68% of the world's population had mobile phones. Industry experts predict that 364 million people will use mobile payments by 2012.

Mobile banking has gained acceptance in the developing world more so than in industrialized nations. To a large extent its popularity in developing nations can be traced to a lack of access to the formal banking sector as well as the relatively high fees of that sector. Additional reasons include the regulatory environment, economic limitations and the availability of sustaining technologies.

While mobile payments are a fast moving train in developing countries, consumers in the United States have yet to jump onboard. The availability of traditional financial services is part of the reason. An additional factor is that income from this form of payment systems appears to be limited; at least that is the perception of many in the financial services industry. Consumers in the United States are also accustomed to using credit and debit cards for payment.

The credit union business model for credit and debit cards is evolving as there are economic and regulatory pressures that are dictating change. The current business model, which offers free checking, is paid largely with interchange income, which is likely to decline due to new rules required by provisions of the Dodd-Frank financial reform law, which calls for debit card transaction fees that are “reasonable and proportional to the actual cost incurred.”

There are numerous payment options for members and potential members; but how do credit unions stand out in a crowded field—the payment systems market? Plain vanilla credit and debit cards might be one answer. A good number of consumers *are looking* for a plain vanilla card without rewards. For credit unions, offering simplicity is a real value. Statistics show that credit unions, on average, offer 2% lower rates on their credit cards than banks do.